

# Pacific Leasing Corporation Limited

7th ANNUAL REPORT

TO THE SHAREHOLDERS

YEAR ENDED JANUARY 31, 1967

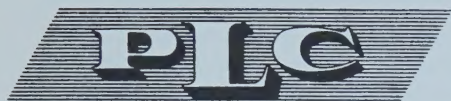


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# Pacific Leasing Corporation Limited

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TO THE SHAREHOLDERS  
YEAR ENDED JANUARY 31, 1967



## DIRECTORS

R. Murray Brink, O.B.E. .... Vancouver, B.C.  
President — Johnston Terminals Limited

John F. Coulter ..... Vancouver, B.C.  
Partner — Coulter, Bryant & Co.

Alan M. Eyre ..... Vancouver, B.C.  
President — Dueck on Broadway Limited

Frank F. Rush ..... Vancouver, B.C.  
President of the Company

Dr. George E. Rush ..... Ogden, Utah  
Research Director —  
Amalgamated Sugar Company

Wm. E. Thomson ..... Vancouver B.C.  
President — Pemberton Securities Ltd.

Wm. F. Vaughan ..... Vancouver, B.C.  
President — Power Holdings Limited

## OFFICERS

FRANK F. RUSH ..... President

WM. F. VAUGHAN ..... Vice-President

R. D. JEWETT ..... Secretary

MRS. E. M. FINDLAY ..... Treasurer

## TRUSTEE

Crown Trust Company ..... Vancouver, B.C.  
: Series A, B and C Collateral Trust Notes  
: Series A, B and C Debentures

## REGISTRAR AND TRANSFER AGENT

Crown Trust Company ..... Vancouver, B.C.  
: Series A, B and C Collateral Trust Notes  
: Series A, B and C Debentures

Montreal Trust Company ..... Vancouver, B.C.  
: Preferred Shares — Series B  
: A and B Common Shares

## BANKERS

The Royal Bank of Canada .... Vancouver, B.C.

## SOLICITORS

Buell, Ellis, Sargent & Russell  
Vancouver, B.C.

## AUDITORS

Touche, Ross, Bailey & Smart  
Vancouver, B.C.

## OFFICE

2256 West 12th Avenue ..... Vancouver, B.C.  
Telephone 731-4969



## To Our Shareholders:

It is a pleasure to be able to submit to you this Seventh Annual Report of your Company covering the twelve month period ending January 31, 1967.

### REVENUE & PROFITS

The results for the year represent an appreciable improvement over those for the previous period. Earned income increased from \$498,687 to \$596,445.

After paying income taxes of \$7,350 profits for the year amounted to \$242,137 a 27.0% increase over the figure of \$190,608 for the last year. Dividends of \$36,750 were paid to holders of Series B Preferred shares, leaving \$205,387 attributable to Common Shareholders. This is equivalent to \$4.39 per Common share, and compares with \$3.85 for the prior period.

The improvement in earnings is much above the average now being attained in the financial service field. Some factors contributing to this are worth noting:—

Although money costs have increased substantially in the past year or more, the overall impact on operating results has not been too severe. This is due to the fact that the great proportion of capital employed is in long term debt and in equity.

Collection of lease rental payments has been satisfactory. This is largely the result of constant efforts to improve the quality of business being written. Experience shows that loss reserves provided are adequate.

Administrative costs continue to be relatively light. The Company is able to operate successfully from its headquarters in Vancouver and has not found it necessary or desirable to establish other offices in its efforts to cover Western Canada. It has thus been possible to avoid the adverse effects of a high overhead in a period when the money supply prohibits the growth which would otherwise make such costs worthwhile. In light of the in-

creased revenue during the year, administrative costs of the Company are proportionately lower.

Had it not been for the difficult capital market prevailing during the year, the improvement in operating results would have been better.

### GROWTH

At the year end the value of contracts receivable (including residual values and renewals, minus a reserve for possible contract losses) was \$6,112,734. This is an increase of \$1,053,042 over the comparable figure for last year.

Business written during the year was, on the whole, of a good credit classification. A significant proportion was with existing leasing clients.

### CASH FLOW

Cash flow available for re-investment in lease contracts increased from \$900,228 to \$1,281,270. This is aside from capital funds raised during the year.

This cash flow, in view of the tight money situation prevailing over the past year or more, has proved to be a most useful source of funds, and has reduced, during a critical period, the Company's reliance on the securities market.

### INCOME TAXES

Capital cost allowances have been claimed as in previous years thus again making it possible to minimize the Company's income tax liability for the year. It is well that Shareholders be fully aware that the tax of \$7,350 paid in this, and the past three years, could be appreciably increased in future years should credit restrictions impede normal expansion for too long.

Changes in capital cost allowances brought in by the Budget Speech of March 29, 1966 reduce the base on which most allowances can be claimed on assets ac-

quired since that date. The reduced base for these assets will pertain for three years.

As a result of this reduction approximately \$80,000 in capital cost allowances, which under the previous base would have been available this year, is postponed for the next two fiscal periods.

These reductions in allowances were to continue on assets purchased up to October 1, 1967. Fortunately, the Federal Government has seen fit to advance this termination date to April 1, 1967. This is a welcome change.

#### CAPITAL BASE

During the year arrangements were made for the sale of \$500,000 6¾ % Convertible Sinking Fund Debentures Series C. The success of the underwriting, which was accomplished when general market conditions were not favourable, was very gratifying to your Directors. The funds, which were received in September, permitted the Company to maintain a progressive approach to leasing possibilities.

In the past two years the Company has substantially increased the security of the holders of Collateral Trust Notes (the senior debt issue) and is now in a position to consider further financing of this category. The last issue of Collateral Trust Notes was in May of 1965. These were Series C in the principal amount of \$800,000. Since that time the Company has increased the share capital investment by \$772,600, debentures by \$500,000 and has retained in the business approximately \$280,500 of earnings.

#### DIVIDENDS

Dividends at the rate of \$1.50 per share and \$0.80 were paid on the Series B Preferred shares and the Common shares respectively. The total dividend payment being \$73,926. The dividend of \$37,176 to the Common Shareholders is relatively light in view of the earnings of \$205,387 attributable to them. The total dividends paid to Common Shareholders since payments were

initiated in December 1962 is \$71,792. Even bearing in mind the probability of increased tax payments in the future, this amount is still quite modest when relating it to the retained earnings figure of \$519,770.

During the current year consideration will be given by your Directors to increasing the rate of dividend payments to Common Shareholders.

#### OUTLOOK

Demands for the Company's leasing service continue to be high and the rates which can be obtained are an improvement over previous years. Operating results for the coming year should continue at approximately the same level as for the year under review. With any improvement in the money market the Company will seek the additional funds which will permit continuance of the favourable growth trend already established.

#### PERSONNEL

The management and staff of the Company have, by their efforts and co-operation, contributed to the continued growth of the Company. It is a pleasure to express, on behalf of the Directors, appreciation of their endeavours.

#### ANNUAL MEETING

The Annual Meeting of the Shareholders of the Company will be held at 11:30 a.m. on Wednesday, April 26 next in the Connaught Room of the Georgia Hotel, 801 West Georgia Street, Vancouver 1, B.C.

Class A Common Shareholders and Preferred Shareholders are not entitled to vote at the meeting, nevertheless, they, as well as the Class B Shareholders, are cordially invited to attend.



FRANK F. RUSH, President

April 11, 1967.



# Pacific Leasing Corporation Limited

AND ITS WHOLLY-OWNED SUBSIDIARY

## Consolidated Balance Sheet as at January 31, 1967

(WITH COMPARATIVE FIGURES FOR 1966)

### ASSETS

	1967	1966
Cash	\$ 52,780	\$ 22,567
Lease contracts receivable, and other contracts due in instalments to 1975, less allowance for possible losses on lease contracts \$94,961; (1966 \$56,808)	5,366,205	4,416,499
Rentals receivable	74,115	78,222
Deposits on equipment acquisitions	—	57,077
	<u>5,440,320</u>	<u>4,551,798</u>
Rental equipment—at estimated residual value (Note 1)	746,529	643,193
Prepaid expenses	5,122	5,954
Deposit with sinking fund trustee	1,906	18,185
Equipment and office furnishings—at cost less accumulated depreciation \$8,557; (1966 \$6,189)	8,522	9,386
Discount and expenses of long-term debt less amounts amortized	78,030	65,702
Commission on issue of preferred shares	17,252	17,252
5% special refundable tax	<u>30,912</u>	<u>—</u>

On behalf of the Board:

"FRANK F. RUSH," Director

"WM. E. THOMSON," Director

<u>\$6,381,373</u>	<u>\$5,334,037</u>
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## STATEMENT I

**LIABILITIES AND SHAREHOLDERS' EQUITY**

	1967	1966
Current:		
Bank loan (secured by Collateral Trust Notes Series A)	\$1,160,000	\$ 985,000
Accounts payable	87,006	46,431
Accrued interest	44,998	30,179
Income tax payable (Note 3)	2,450	2,450
Special refundable tax payable	8,248	—
Sinking fund instalments due within one year	20,000	20,000
	<u>1,322,702</u>	<u>1,084,060</u>
Long-term Debt (Note 2):		
Sinking fund debentures		
7% Series A due November 15, 1975	116,500	135,500
7% Series B due October 1, 1977	136,500	153,000
6¾% Convertible Series C due August 15, 1981	500,000	—
Collateral trust notes		
6% Series B due May 1, 1973	650,000	650,000
6¼% Series C due May 15, 1980	800,000	800,000
	<u>2,203,000</u>	<u>1,738,500</u>
Deferred Liabilities:		
Lease rentals received in advance	101,948	72,830
Unearned income on lease contracts (Note 3)	1,152,112	1,008,547
	<u>1,254,060</u>	<u>1,081,377</u>
Shareholders' Equity:		
Share capital (Note 4)		
Preferred shares		
Authorized, issued and fully paid		
24,500 6% cumulative, redeemable		
exchangeable shares—Series B of \$25 par value	612,500	612,500
Common shares		
Authorized		
100,000 Class A (1966—50,000) and		
25,000 Class B shares of \$10 each		
Issued and fully paid		
23,940 Class A shares (1966—23,710)	239,400	237,100
22,810 Class B shares (1966—22,710)	228,100	227,100
	<u>1,080,000</u>	<u>1,076,700</u>
Surplus		
Contributed—premium on sale of B preferred shares	1,841	1,841
Retained earnings—Statement III	519,770	351,559
	<u>1,601,611</u>	<u>1,430,100</u>
	<u>\$6,381,373</u>	<u>\$5,334,037</u>

The notes to the financial statements are an integral part thereof.



# Pacific Leasing Corporation Limited

AND ITS WHOLLY-OWNED SUBSIDIARY

## Consolidated Statement of Income For the Year Ended January 31, 1967

(With Comparative Figures for 1966)

STATEMENT II

	1967	1966
<b>INCOME:</b>		
Income earned on lease contracts (Note 3)	\$587,047	\$489,291
Other income	9,398	9,396
	<u>596,445</u>	<u>498,687</u>
<b>EXPENSES:</b>		
Administrative expenses (including depreciation 1967 \$2,368; 1966 \$2,994)	131,594	120,464
Interest and finance charges (including amortization of long-term debt costs 1967 \$17,804; 1966 \$12,664)	215,364	180,265
	<u>346,958</u>	<u>300,729</u>
Income before provision for income taxes	249,487	197,958
Provision for income taxes (Note 3)	7,350	7,350
Net income for the year	<u>\$242,137</u>	<u>\$190,608</u>

## Consolidated Statement of Retained Earnings For the Year Ended January 31, 1967

(With Comparative Figures for 1966)

STATEMENT III

	1967	1966
Balance at beginning of year	\$351,559	\$208,368
Less:		
Provision for 1964 income taxes		7,350
		<u>201,018</u>
Add:		
Net income for the year—Statement II	242,137	190,608
	<u>593,696</u>	<u>391,626</u>
Deduct:		
Dividends paid		
Preferred shares	36,750	12,095
Common shares	37,176	20,472
	<u>73,926</u>	<u>32,567</u>
Commission on 6% Series A preferred shares retired during year		7,500
		<u>40,067</u>
Balance at January 31, 1967	<u>\$519,770</u>	<u>\$351,559</u>

The notes to the financial statements are an integral part thereof.



# Auditors' Report to the Shareholders

Pacific Leasing Corporation Limited.

We have examined the accompanying consolidated balance sheet of Pacific Leasing Corporation Limited and its wholly-owned subsidiary as at January 31, 1967 and the consolidated statements of income and retained earnings for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the aforementioned financial statements together with the notes referred to therein present fairly the financial position of the company and its subsidiary as at January 31, 1967 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, B.C.,  
March 7, 1967.

TOUCHE, ROSS, BAILEY & SMART,  
Chartered Accountants.

## Notes to Financial Statements as at January 31, 1967

### Note 1

The cost of rental equipment shown on the balance sheet at estimated residual value of \$746,529 at January 31, 1967 was \$7,320,878. At that date the company had commitments for the purchase of rental equipment of approximately \$353,884.

### Note 2

The long-term debt shown as \$2,203,000 comprises the following:

	7% Sinking Fund Debentures		6 ¾ % Convertible Sinking Fund Debentures	Collateral Trust Notes	
	Series A Due November 15, 1975	Series B Due October 1, 1977	Series C Due August 15, 1981	6% Series B Due May 1, 1973	6 ¼ % Series C Due May 15, 1980
Authorized	\$175,000	\$175,000	\$500,000	\$650,000	\$800,000
Issued in previous years	\$175,000	\$175,000	\$ —	\$650,000	\$800,000
Issued in current year	—	—	500,000	—	—
Less: Redeemed to date	48,500	28,500	—	—	—
Outstanding	126,500	146,500	500,000	650,000	800,000
Deduct: Sinking fund payments, required within one year, transferred to current liabilities	10,000	10,000	—	—	—
Balances—Statement I	\$116,500	\$136,500	\$500,000	\$650,000	\$800,000

In addition, \$1,160,000 Series A Collateral Trust Notes are held by the company's bankers as security for the company's bank loan.

### Security

The collateral trust notes are secured by lease contracts receivable amounting to \$5,111,380 pledged as collateral.

## Notes to Financial Statements (continued)

### Terms of minimum repayment

Series A debentures	1975	\$10,000 annually—sinking fund
Series B debentures	1977	\$10,000 annually—sinking fund
Series C convertible debentures	1981	\$25,000 annually (1969-1981)— sinking fund
Series B collateral trust notes	1973	at maturity
Series C collateral trust notes	1980	\$35,000 annually (1968-1979)— sinking fund

### Restrictions on dividends and redemption of shares

Under the terms of issue of the 7% Series A sinking fund debentures, the company has covenanted that not more than one-half of its earnings available for dividends will be paid out as dividends or for redemption of shares. At January 31, 1967 one-half of earnings available for dividends exceeded dividends paid to date by \$189,500. No shares have been redeemed out of earnings.

### Conversion rights—Series C debentures

The debenture holders may, up to August 14, 1976, convert each one thousand dollar debenture into forty-five Class A common shares.

### Note 3

Under the company's method of accounting for income on lease contracts, unearned income (representing the excess of total rentals receivable over the cost of the related rental equipment less its estimated residual value at the end of the prime period of the lease) is taken into earnings on the sum-of-the-digits basis.

For income tax purposes lease rental payments are taxable in the year receivable and capital cost allowances are claimed in respect of the cost of the rental equipment as permitted by the taxation authorities. As a result, income taxes which would otherwise have been applicable, were reduced by approximately \$116,700 in 1967 and, in the aggregate to date, by \$277,200.

### Note 4

The changes in issued share capital during the year are set out in the following tabulation:

	6% Cumulative, Redeemable Exchangeable Preferred Shares		Common Shares	
	Series B \$25 each		Class A \$10 each	Class B \$10 each
Issued and fully paid at January 31, 1966	24,500		23,710	22,710
By exercise of warrants Class A and B common issued for cash	—		230	100
Issued and fully paid at January 31, 1967	<u>24,500</u>		<u>23,940</u>	<u>22,810</u>

During the year, the authorized share capital was increased by an additional 50,000 Class A common shares to enable the company to meet the conversion privileges attached to the Series C debentures and to make available additional shares for issue in the future.

At January 31, 1967 unissued shares were in part reserved for the exercise of share warrants, options, and conversions as follows:

48,560 Class A common shares for the exercise of warrants attached to the debentures to purchase Class A common shares at \$10 per share up to November 15, 1970, for the exchange of 24,500 Series B preferred shares on a share-for-share basis up to December 14, 1975, and for the conversion of Series C debentures on a basis as described in Note 2.

### Note 5

For the year ended January 31, 1967 directors' fees, and remuneration of a salaried director, amounted to \$21,080.





**PLC**